CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 29, 2000

H.R. 208

An act to amend title 5, United States Code, to allow for the contribution of certain rollover distributions to accounts in the Thrift Savings Plan, to eliminate certain waiting-period requirements for participating in the Thrift Savings Plan, and for other purposes.

As ordered reported by the Senate Committee on Governmental Affairs on June 14, 2000

SUMMARY

H.R. 208 would make a number of changes to the federal government's civilian retirement programs. The act would let newly hired federal employees make contributions to the Thrift Savings Plan (TSP) sooner than allowed under current law and let federal employees transfer balances from other tax-deferred savings plans to their TSP accounts. The act would also authorize courts to prevent former federal employees from withdrawing their retirement contributions until divorce proceedings are finalized.

CBO estimates that enacting H.R. 208 would decrease revenues by $45 million over the 2001-2005 period. That revenue loss would be partially offset by a reduction of $11 million in direct spending for refunds of retirement contributions. Because this act would affect direct spending and receipts, pay-as-you-go procedures would apply.

H.R. 208 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would have little or no impact on the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 208 is shown in the following table. For the purposes of this estimate, CBO assumed that H.R. 208 would be enacted by October 2000.

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	- 3	- 2	- 2	- 2	- 2
Estimated Outlays	0	- 3	- 2	- 2	- 2	- 2
CHANGES IN REVENUES						
Estimated Revenues	0	- 6	- 9	- 9	- 10	- 11

Note: The Joint Committee on Taxation prepared the estimates of the changes in revenues.

The effects of this legislation on direct spending fall within budget function 600 (income security).

BASIS OF ESTIMATE

Direct Spending

Restrict Payments of Refunds of Retirement Contributions. Federal employees covered by the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS) contribute a portion of their salaries to the Civil Service Retirement and Disability Fund. Individuals may have their retirement contributions refunded to them after leaving government service, but periods of service covered by refunds are not counted in calculating the amount of retirement benefits. (FERS employees also may not count refunded service in determining retirement eligibility.)

For this reason, in order to preserve a former spouse's entitlement to a portion of an employee's annuity or a survivor benefit, divorce settlements may prohibit a former employee from taking a refund. Under current law, however, courts can only bar refund payments as part of a final divorce settlement. H.R. 208 would allow courts to bar payments of refunds while divorce proceedings are still in progress.

Based on information from the Office of Personnel Management, CBO estimates that about 27,000 former employees would receive refunds annually under current law. Using data on marriage and divorce rates from the National Center for Health Statistics, CBO anticipates that 600 of those employees would be going through divorce proceedings. CBO estimates that the bill would prevent 400 employees per year from receiving refunds, and delay payment for another 100 employees by six months. Overall, CBO estimates that H.R. 208 would lower refund payments by $11 million over the 2000-2005 period. Annual savings would decline in later years because an increasing number of refunds would be paid to employees covered by FERS, which pays much smaller refunds than CSRS. (The average refund affected by this act would be about $6,700 in 2001, and would decline to about $5,300 in 2005.) In the long run, spending on federal retirement benefits would increase since more employees would be eligible for retirement benefits.

Revenues

Allow New Hires to Participate in TSP Sooner. Newly hired federal employees must now wait two open seasons (6 to 12 months) before they can begin making contributions to the TSP. H.R. 208 would allow new hires to begin making TSP contributions immediately, although government contributions would still not begin until the second open season. The portion of an employee's salary that is contributed to the TSP is not taxed until it is withdrawn from the plan.

The Joint Committee on Taxation (JCT) estimates that the federal government would forgo tax revenues of $45 million over the 2000-2005 period as a result of this provision. Based on recent experience, JCT assumed that between 90,000 and 95,000 eligible employees would be hired each year, and that most of those new hires would participate in the TSP. Under the act, employees would contribute more money to their TSP accounts than under current law, and thus taxes would be deferred on more of their income.

Allow Rollovers from Other Tax-Deferred Savings Plans. H.R. 208 would allow employees to transfer funds from certain tax-deferred savings plans, such as a 401(k) plan from a previous job, to their TSP accounts. JCT estimates that this provision would not have a significant budgetary impact.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	- 3	- 2	- 2	- 2	- 2	- 2	- 2	- 2	- 2	- 2
Changes in receipts	0	- 6	- 9	- 9	- 10	- 11	- 11	- 12	- 13	- 13	- 14

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 208 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would have little or no impact on the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On March 26, 1999, CBO estimated that H.R. 208, as ordered reported by the House Committee on Government Reform on March 17, 1999, would increase discretionary spending by $35 million and have no net effect on direct spending over the 2000-2004 period. The two major differences between the two versions of H.R. 208 is that the House version does not have a provision affecting refund payments, and the Senate version would not change agency retirement contributions. In addition, CBO has extended its estimate to include the budgetary effects in 2005.

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